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NEWS RELEASE

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PSC APPROVES POLLUTION CONTROL PROJECT FOR EKPC

Utility to build scrubber at plant in Mason County

FRANKFORT, Ky. (April 18, 2006) – The Kentucky Public Service Commission (PSC) today approved construction of a project that will reduce air emissions from the East Kentucky Power Cooperative's (EKPC) H.L. Spurlock Power Station near Maysville.

The \$159 million scrubber, which will be added to the Spurlock 2 unit, is required in order for EKPC to comply with U.S. Environmental Protection Agency (EPA) requirements to further reduce air emissions from coal-fired power plants by 2010. The scrubber will reduce emissions of sulfur dioxide and particulates.

Under Kentucky law, EKPC will be able to recover the cost of the scrubber in the future through a surcharge on the electric bills of customers served by the rural electric cooperatives to which EKPC provides power. The impact on individual electric bills will depend on actual construction costs, interest rates and other factors.

But EKPC predicted that the costs of the scrubber will be offset by lower fuel costs, since the scrubber will enable the Spurlock unit to burn high-sulfur coal, which is generally less expensive than low-sulfur fuel. Electric utilities in Kentucky are required to pass on to consumers any savings that result from reductions in fuel costs.

The scrubber will produce an estimated total cost savings of \$338 million in the 29 years following its start-up in 2008, EKPC said in its application.

EKPC is owned by the 16 distribution cooperatives to which it provides wholesale electric generation and transmission service. Those distribution cooperatives serve about 500,000 customers in 89 Kentucky counties.

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EKPC first added a scrubber to Spurlock 2 in 1982, enabling the utility to use high-sulfur coal, which is generally less costly than low-sulfur coal. But, after operating the scrubber for 9,000 hours, EKPC concluded that it was less expensive to burn low-sulfur coal and purchase emission allowances in order to meet emission requirements, so it mothballed the scrubber.

However, the new EPA rules – announced in December 2003 and finalized in March 2005 – require companies to achieve substantial further reductions in sulfur dioxide emissions. The price of both emission allowances and low-sulfur coal is rising, making a scrubber a more economic way to comply with the new rules, EKPC said in its application to the PSC.

Most low-sulfur coal is mined in Wyoming and other western states, with smaller quantities coming from Appalachia. High-sulfur is abundant in Appalachia and the Illinois Basin, which includes the coalfields of western Kentucky.

EKPC considered three options: refurbishing the old scrubber, modifying the old scrubber to use less expensive technology, and building an entirely new scrubber. Based on operational costs and construction estimates, EKPC concluded that a new scrubber would be the least expensive option over the long term.

The chemical reaction in scrubbers produces gypsum as a by-product. Scrubbers can be designed to yield a grade of gypsum suitable for use in wallboard, but EKPC concluded that there would be no market when the scrubber first goes into operation.

In today's order, the PSC directed EKPC to periodically review the issue and modify the scrubber to produce wallboard-grade gypsum should a market develop.

Today's order and other documents in the case are available on the PSC Web site. The case number is 2005-00417.

The PSC is an agency within the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 110 employees.